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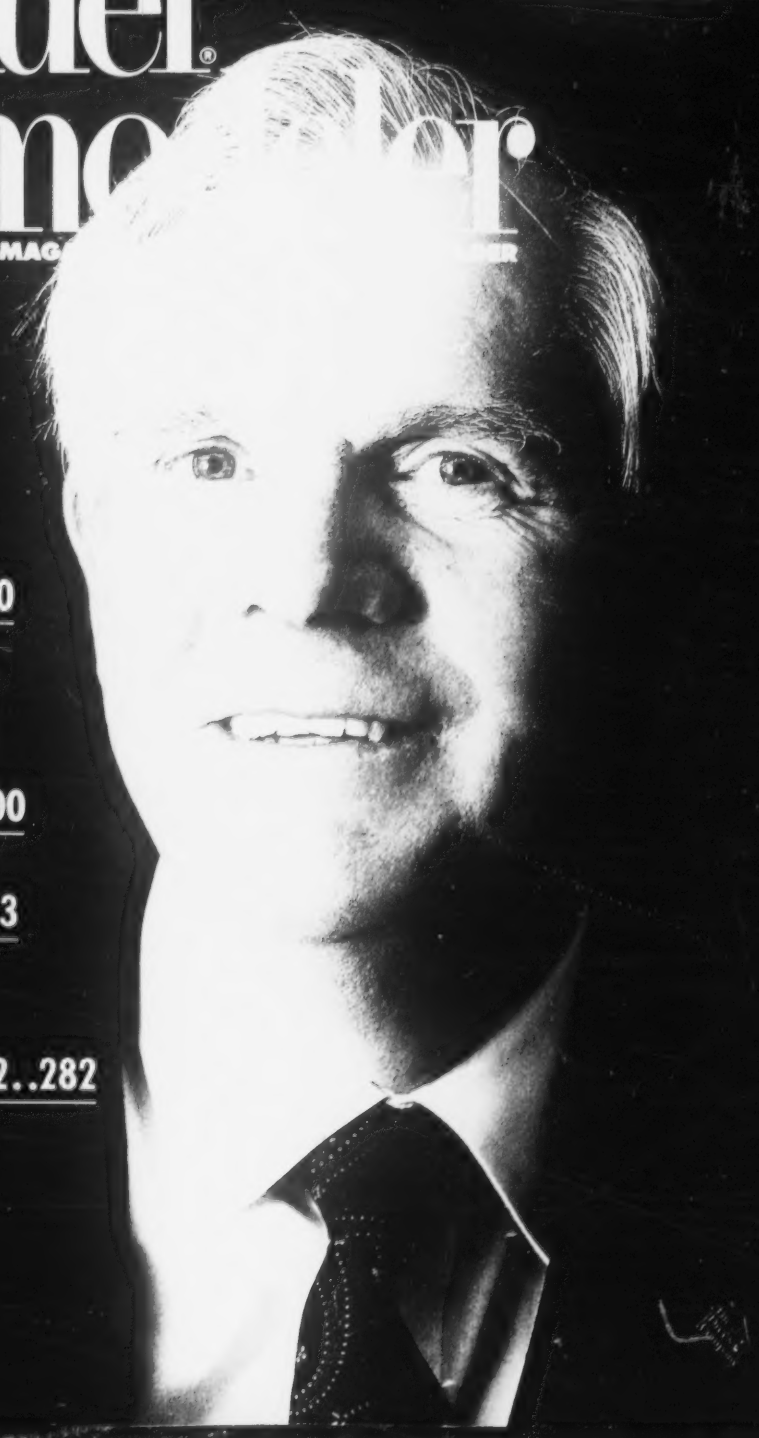


JANUARY 1992

BUILDER OF THE YEAR

Ralph Drees
The Drees Company..160

Smarter, Better Housing
For The Money..178

Design Trends In
Exterior Remodeling..200

Business Opportunities
In Medical Buildings...93

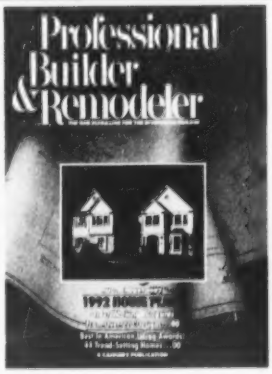
NAHB Show Tour
Of Las Vegas...39

Product Preview For 1992..282

A CAHNERS PUBLICATION

Professional Builder & Remodeler

THE ONE MAGAZINE FOR THE DIVERSIFIED BUILDER



On The Cover

■ Our 1991 Builder Of The Year is Ralph A. Drees. His homespun management style transformed his company from a small, family-owned firm with $23 million in 1983 revenues into a diversified Giant with current year revenues of $166 million. The Drees success story begins on page 160. Photography by Marc Berlow.

Builder Of The Year: p. 160.

Industry achievement honor roll: p. 168.

FEATURES

The Builder Of The Year 160

Each year, PB&R honors an individual for outstanding accomplishments in home building. In this, the silver anniversary of the American housing industry's preeminent award, the 1991 honor belongs to Kentucky builder, Ralph Drees.

1991 Professional Achievement Awards 168

For the 12th year, our editors recognize individual achievement in the housing industry. This year's winners embody leadership in eight key areas: Management, Remodeling, Recycling, Energy Efficiency, High-Density Housing, Water Conservation, Sales and Housing Finance.

Smarter, 'Better' Housing For The Money 178

In this issue, we introduce a new national awards program that recognizes innovation in housing.

A Change Of Face 200

Fine exterior remodeling is more than a coat of paint. Quality work complements a home's site and adds value.

Innovative new housing awards: p. 178.

1992 product outlook: p. 282.

DEPARTMENTS

Editorial: Housing As It Should Be. . . 9

Money: What's Ahead. . . 32

Inside Housing: Success Stories. . . 58

Real Estate Dynamics: Market Outlook. . . 98

Advertising: Do Incentives Work?. . . 113

Interiors: Small Home Merchandising. . . 124

Remodeling: Telemarketing. . . 276

1992 Product Preview. . . 282

Literature. . . 316

House Plans. . . 345

Business

■ Cahners Economics' 1992 business forecast calls for gradual improvement in starts, sales and spending, but plenty of obstacles lie ahead: *p. 14.* The first-time buyer market is strengthening, and smart builders have devised homes to fill this niche: *p. 26.*

Markets

■ *PB&R*'s NAHB "show tour" highlights the key designs and developments in Las Vegas: *p. 39.* If you think your company may qualify as an industry Giant, here's a way for you to let us know: *p. 43.*

Management

■ Doctors have money and will invest it in offices tailored to their needs. Here's the first of a three-part series on breaking into the medical construction market: *p. 93.*

Marketing

■ A public/private partnership offers Detroit's first new home subdivision in 30 years: *p. 118.*

Technology

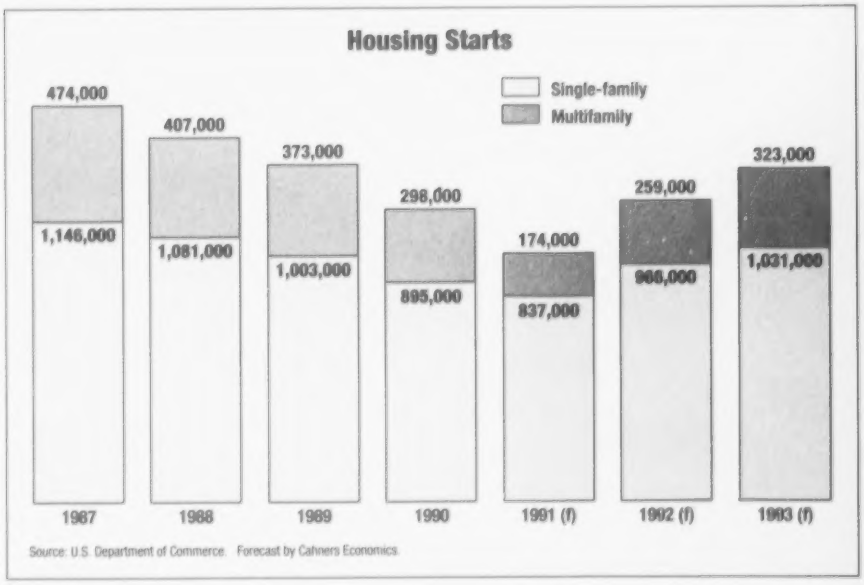
■ The home-automation market may turn the corner this year as some major players get ready to roll out new products: *p. 263.* HUD's new accessibility guidelines may draw builders into a regulatory maze: *p. 270.* NAHB's Research House is evaluating recycled and resource-efficient products: *p. 278.*

BUSINESS

■ INDUSTRY CHALLENGE

Forecast Calls For Gradual Improvement In Starts, Sales And Spending

While the worst days are over, there are plenty of economic obstacles ahead.



Source: U.S. Department of Commerce. Forecast by Cahners Economics.

In this issue, in place of the usual "Indicators" section, the staff of Cahners Economics takes its annual stab at forecasting what the year ahead will look like.

Our objective? To help you avoid the pitfalls and take advantage of the business opportunities that lie ahead. So here goes this year's attempt to see our way through 1992.

New Home Construction: New residential construction activity (the construction of single-family homes, condominiums and apartment buildings) declined to a level even lower in 1991 than the depths reached during the 18%-mortgage-rate days of 1982. The single-family sector was slow, but total starts for 1991 were about 25% higher than during the dark days of the 1981-'82 recession.

The construction of multifamily buildings, however, fell off the cliff. Total starts for this credit-starved and overbuilt sector were off an incredible 74% from 1984's peak.

Fortunately, recovery in residential construction markets became firmly rooted during the middle of last summer. Sales of both new and existing homes began rising steadily at that time, although not without a certain amount of unnerving hesitation.

Interest rates continued to ease lower, both business and consumer confidence inched up, and employment losses finally stabilized. As the year ended, there was concern about the plateauing of starts and sales numbers, but no real fear that these measures would regress to early-1991 levels.

Following an abysmal first quarter when total housing starts averaged only 915,000 units (seasonally adjusted annualized rate), starts moved up between April and July, averaging 997,000 units for the second quarter of the year. The average moved up to 1,046,000 units during the third quarter.

Still, for six consecutive months (December 1990 through May 1991) the annualized rate of new home construction was under one million units—the longest such streak of bad news since 1981-'82.

Although the market is hardly charging forward, the recovery is clearly underway and the trend is sustainably positive.

Through the first nine months of 1991, total starts averaged 986,000 units; the actual number of units started through September of last year was 19.5% below the total for the first nine months of 1990. However, the September 1991 rate of new housing starts was a very encouraging 22% above the January level.

Is the glass half full or half empty? Compared to where we'd like to be at this stage of the economic recovery, starts numbers for the final months of 1991 were not great, but things are looking up.

Unfortunately, building permit trends continued negative over the first three-quarters of 1991, de-

spite the modest pick-up in home sales volume.

The value of permits authorizing new single-family home construction was down 9% through September of 1991, while the value of multifamily permits plunged 37.8%. Combined with our expectation of only a gradual and muted recovery from the general economic recession (resulting in weak gains in employment and income), this year's housing market recovery may be far from vigorous.

From about 1,011,000 starts in 1991, we expect 1992 starts to total 1,225,000 units—a gain of more than 21%, but an increase of only about half the rate we've seen during the first year of recovery from past recessions.

Residential Remodeling & Upkeep Spending: Although total residential upkeep and improvement spending grew virtually uninterrupted during the 1980s, the vast majority of this growth came from consumer spending on maintenance and repair work—not large remodeling projects.

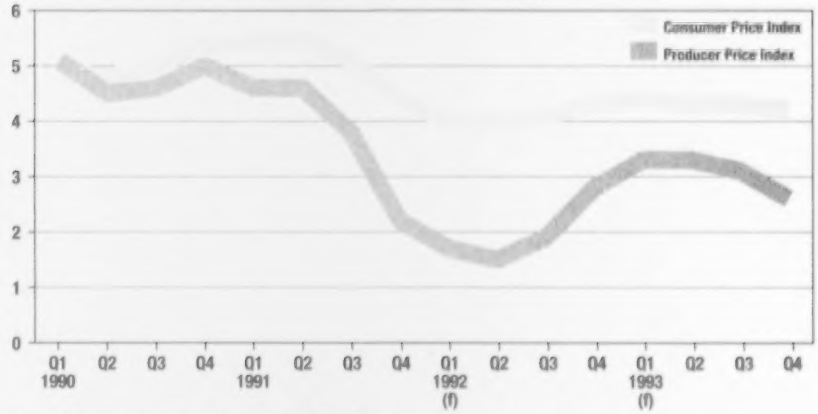
Between 1980 and 1990, total upkeep and improvement spending grew by a cumulative 130.4%. During this period, however, the share of total consumer spending attributable to "improvement work" (i.e. additions and alterations, and major replacements) declined from 67.2% of the total in 1980 to 52% of the total last year.

Total upkeep and improvement spending reached a record-high

Continued on page 18.

The Inflation Outlook

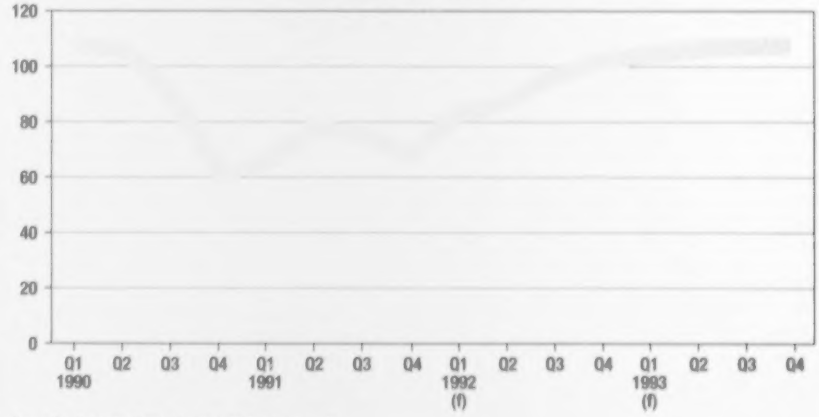
(Over-The-Year Percent Change In Consumer And Producer Prices)



Source: U.S. Bureau of Labor Statistics. Forecast by Cahners Economics.

Consumer Confidence Index

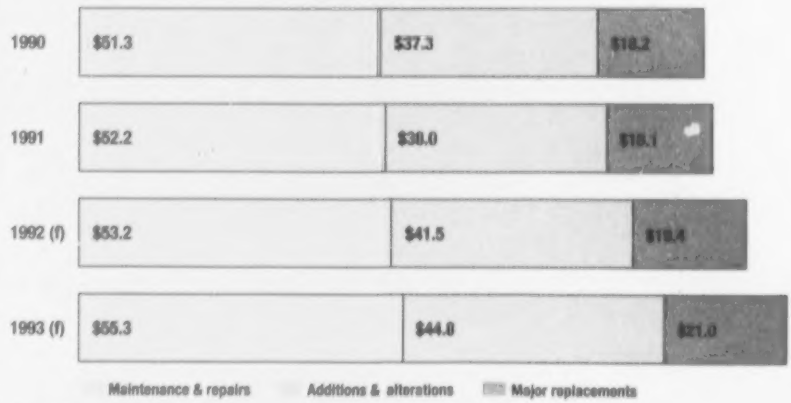
(Quarterly Averages; 1985 = 100)



Source: The Conference Board. Forecast by Cahners Economics.

Residential Remodeling Expenditures

(Billions Of Dollars)



Source: U.S. Department of Commerce. Forecast by Cahners Economics.

Low inventories and pent-up demand should pull residential markets out of the quicksand

Continued from page 15.

$106.8 billion during 1990. The rise appears only slightly above this level during 1991 (government data compilation and release has been notoriously slow).

The additions and alterations (i.e. "true" remodeling) portion of this total was approximately $38 billion. Remodeling spending (in contrast to the trend in the more discretionary maintenance and replacement categories) has declined for three consecutive years, in concert with new home construction spending.

Some cities stood out from the crowd as being excellent remodeling growth areas during 1991. But through nine months of the year, the total value of permits issued throughout the United States for residential remodeling jobs fell by a modest 1.2% (in sharp contrast to the almost 15% decline in permits for new home construction).

However, seven of the nine Census geographic divisions recorded increases in remodeling values through the first three-quarters of 1991.

The exceptions were in the downtrodden Northeast: remodeling in the New England states plummeted 14.2%, and remodeling permit values in the mid-Atlantic fell by 6.2%.

Other regions recorded gains of 1% to 3%, with the notable exception of the Rocky Mountain states, where permit values rose an exceptionally strong 11.8%.

On balance, we expect total residential upkeep and improvement spending work to increase by 5.4% in 1992, following a slight 1.4% gain in 1991.

Although 1992 looks better than any of the last three years, the modest increase still represents a continuation of the discouraging pattern of slow growth—at least when compared to the much healthier gains realized in the mid-1980s.

Light Commercial Construction Outlook: Commercial, industrial and institutional building construction markets weakened dramatically during 1991, insulated from most of the positive forces that helped spur recovery in residential markets. Growth in the comparatively healthy industrial and public construction sectors slowed markedly, while the downward spiral in commercial markets stabilized but showed no signs of turning around.

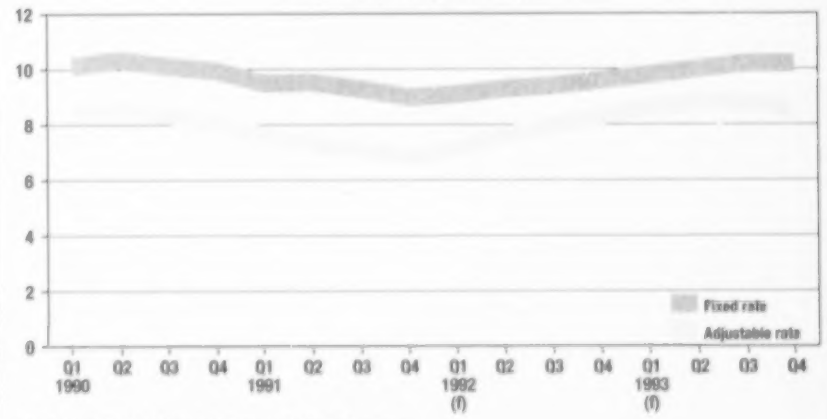
Building permit value trends for most of the private non-residential building sectors still suggest that we have yet to reach the bottom of this particularly painful cycle.

The total value of new commercial construction put-in-place during the first nine months of 1991

Continued on page 22.

Mortgage Interest Rates

(Quarterly Average – Percent)



Source: Federal Home Loan Mortgage Corp. Forecast by Cahners Economics.

Top 1992 Markets For New Residential Construction & Residential Remodeling

(Dollar Value Projections Of Building Permits)

New residential construction		Residential remodeling	
11.	Los Angeles	11.	Los Angeles
12.	Phoenix	12.	Washington, D.C.
13.	San Diego	13.	New York City
14.	Dallas	14.	Detroit
15.	Houston	15.	San Francisco
16.	Las Vegas	16.	Philadelphia
17.	Atlanta	17.	West Palm Beach
18.	Minneapolis	18.	Minneapolis
19.	Honolulu	19.	Chicago
20.	Riverside-San Bernadino	20.	Honolulu

Forecast by Cahners Economics.

Surveys showing low consumer confidence still reflect high interest in home buying

Continued from page 18.

was estimated at $42.1 billion, 23.9% below the level for the first three-quarters of 1990.

We continue to be bearish about the near-term outlook for non-residential building development and only slightly more optimistic about the years immediately following.

Total commercial construction spending fell by 25.1% last year and will probably gain back only a small fraction of this loss (a paltry 4.4% growth rate) in 1992.

These figures are in current (not inflation-adjusted) dollars, but both material and wage inflation in most construction sectors has been muted.

The problems besetting the commercial sectors are so severe as to be only marginally impacted by the trend toward lower interest rates and a recovering overall economy. Lower corporate profits and public deficits will further dampen growth in the heretofore healthy industrial and institutional sectors.

Commercial construction will show little real recovery through 1993. Whereas the past few years have seen the large losses in the office development sector offset by gains in the hotel and retail building sectors, 1991 evidenced large losses across the board. The total value of non-residential space put-in-place in 1992 and 1993 will increase, but only because of renewed gains in the industrial and public construction sectors.

By The Staff
Of Cahners Economics

Regional Housing Starts

	Northeast	Midwest	South	West
1987	269,000	298,000	634,000	420,000
1988	235,000	274,000	575,000	404,000
1989	179,000	266,000	536,000	396,000
1990	131,000	253,000	480,000	329,000
1991 (f)	111,000	229,000	417,000	295,000
1992 (f)	131,000	267,000	502,000	325,000
1993 (f)	160,000	289,000	528,000	377,000

Source: U.S. Department of Commerce. Forecast by Cahners Economics.

Price Changes For Selected Building Materials

(Annual Percent Change)

	1988	1989	1990	1991	1992 (f)	1993 (f)
All materials	5.6%	3.3%	0.1%	1.2%	3.3%	2.2%
Builders' hardware	4.3%	4.4%	4.1%	3.1%	2.7%	3.0%
Ceramic tile	3.3%	2.3%	1.8%	0.8%	2.8%	2.3%
Common brick	3.9%	0.8%	2.1%	1.7%	2.6%	1.9%
General millwork	3.4%	4.8%	2.2%	2.9%	4.1%	4.0%
Gypsum products	-9.8%	-2.5%	-4.4%	-4.1%	-1.4%	0.3%
Lighting fixtures	2.8%	4.8%	3.1%	2.8%	3.1%	3.0%
Lumber	3.3%	3.0%	-0.4%	0.3%	5.5%	4.5%
Plumbing fixtures	7.5%	7.0%	4.6%	4.8%	3.8%	4.2%
Prepared paints	3.8%	6.5%	4.4%	4.9%	4.1%	4.2%
Strip shingles	0.8%	-0.1%	1.3%	2.9%	1.1%	1.1%

Source: U.S. Bureau of Labor Statistics. Forecast by Cahners Economics.

Forecast At A Glance

- Housing Starts: 966,000 single-family units; 1.22 million total.
- Home Improvement & Upkeep Spending: 5.4% increase to $114.1 billion, but remodeling will represent only about 36% of the total.
- Light Commercial: New construction down again, but rehab/renovation spending should be up 6%.
- Mortgage Interest Rates: Fixed rates will remain well below 10% for the entire year. Slow upward trend after mid-year as demand builds.
- Consumer Confidence: Gradual improvement as unemployment begins to fall. End-of-year levels will still be below pre-Kuwait measures.
- Building Materials Prices: Some acceleration in price hikes to an average of 3.3%, as demand picks up. No shortages foreseen.

AD INDEX

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Eljer	265	58
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General Electric Co.	16-17	8
+ General Housing Corp.	326q	109
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Haverhills	324	83
Heatilator Inc., HON Industries	BC	105
Heat-N-Glo Fireplace Products, Inc.	136	41
Hurd Millwork Company	IFC-1	2
In-Sink-Erator Div., Emerson Electric Co.	38	17
Jenn-Air Corp.	55	22
Keller Industries, Inc.	90	25
KitchenAid	305	77
Kitchen/Bath Industry Show	340	98
Kitchen Kompact, Inc.	333	92
Knauf Fiber Glass	341,343	99,102
Kohler Company	27,29	13,14
Kolbe & Kolbe Millwork Co.	325	86
Kraftmaid	10-11	6
Lanier Copying System	134	54
Lennox Industries, Inc.	157	52
+ Lincoln Wood Products, Inc.	326i	107
Louisiana-Pacific Corp. (All Products)	307-310	70
Louisiana-Pacific Corp. (Corporate)	56-57	23
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Magic Chef Co.	46-47	20
Martin Industries	121	35
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Moen Group	43-45	18
National Building Prod. Expo	294-295	71
National Propane Gas Association	267	59
Nord, A Div. of JELD-WEN	23	11
NordicTrack	323	82
NuTone Inc.	33-36	1
Peachtree Doors, Inc.	49-52	19
Pease Industries, Inc.	159	53
Pella Windows & Doors, Rolscreen Co.	103-110	30
Plexus	141	43
Price Pfister Inc.	279	63
Professional Builder & Remodeler Magazine	21,117,311,314-315,363	
Reemay	262	57
Robertson Co., (Pella Windows & Doors)	103-110	30
Ryobi America Corp.	129	37
S & S Mfg., Inc.	327-329	89
Schlage Lock Co.	116-117	33
Scholz Masonite Molders, Inc.	99	24
Sears	152	48
Senco Products, Inc.	8	5
Siemens Energy & Automation	146	46
Simpson Door Co.	119	34
Smart House Venture, Inc. (Supplement)	135-158	
Sony	112	31
Stucco Stone Products, Inc.	326	87
Suburban Propane/Petrolane	130-131	38
Sub-Zero Freezer Co.	277	62
Superior Aluminum Products, Inc.	337	94
Superior Fireplace	96-97	27
Swirl Way	100-101	29
+ Temple-Inland Forest Products Corp.	326k	109
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